Municipal Pension Plan

Annual Report

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Municipal Pension Plan

2001 Annual Report

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MESSAGE FROM THE BOARD

The Municipal Pension Board of Trustees is pleased to present our first annual report, which covers the Municipal Pension Plan fiscal year ending December 31, 2001. The board is responsible for the management of the pension fund, including the investment of assets and the administration of the pension plan. We welcome all new members to the Municipal Pension Plan.

Joint Trusteeship

On April 5, 2001, a board of trustees replaced the Municipal Pension Plan's sole trustee, who was appointed by the provincial government. This historic event in the life of the Municipal Pension Plan was made possible by provisions in the *Public Sector Pension Plans Act* that came into force on April 1, 2000. Plan stakeholders—government, employers, unions, plan member associations and members—negotiated an agreement to share the governance of the plan, as well as the gains or surpluses and liability or deficiencies in the pension fund. Under the joint trusteeship agreement plan members and plan employers, through the trustees, share equally in the pension plan's administration and decision-making.

The partners are the Municipal Employees' Pension Committee, as the plan member partner, and the Union of British Columbia Municipalities and the Provincial Government, as the plan employer partners. The plan employer and plan member partners, and other organizations representing plan employers and plan members, appoint 16 trustees and may appoint an alternate trustee for each primary trustee. The chair is chosen by the trustees.

The new structure simplifies, modernizes and enhances the governance of the pension plan. For more information, please refer to the booklet distributed during the summer of 2000 *Joint Trusteeship of the Municipal Pension Plan,* or see the joint trusteeship information available in the "Publications" section at **pensions.bc.ca/municipal**, your pension web site.

We are pleased to report a busy first year as trustees of the Municipal Pension Plan.

Membership/Benefits

There are currently approximately 125,000 active plan members and 36,000 retired plan members. The number of retired members is expected to continue to grow by approximately 7% in the next three years.

Members' basic pension benefits are guaranteed. Other benefits, such as inflation protection to the basic pension and extended health, dental and Medical Services Plan coverage, are not guaranteed.

Recent changes made by the provincial government to Pharmacare coverage and Medical Services Plan premium costs increased the cost of health benefits. If usage remains the same, the money used to fund health benefits will be gone before the end of 2002 and it will not be possible to pay health benefits. The board took action to ensure coverage for the future by increasing the amounts that retired members must pay for MSP coverage, starting with the October 2002 pension payment. The board monitors the ability to continue to provide these benefits on an ongoing basis. More changes are expected.

MESSAGE FROM THE BOARD

Actuarial Valuation (Financial Soundness)

The Municipal Pension Plan is financially sound. At least every three years, an independent actuary assesses the plan's financial health and the adequacy of the contribution rates for funding the plan. The actuarial valuation as at December 31, 2000 indicates a funding surplus for basic pension benefits of $436 million, improved from the $548 million unfunded liability as at the previous December 31, 1997 valuation. The most significant positive items contributing to the $984 million improvement were higher actual investment returns and lower actual salary increases. The joint trust agreement specifies how surplus assets can be used. The next valuation will be as at December 31, 2003.

Benefits Administration

The board continues to challenge the Pension Corporation to provide high standards of service delivery to plan members, and we are pleased to report significant improvements in service to plan members. Requests for service increased by 24% in 2001, and completed requests for service increased by 56% during the same time period. Processing of purchase of service requests did not meet performance standards, however, and continued to contribute to a backlog. To improve service, the board has authorized additional staffing.

Purchase of Service

In December 2001, the Municipal Pension Board of Trustees approved changes to the purchase of service rules that should improve service to plan members. Generally, the new rules use a single costing method and a single purchase deadline, with simple and consistent purchase categories and eligibility rules. Members can calculate the cost of purchasing service on their own, giving them immediate access to the information needed to make a purchase decision. These changes come into effect in 2002.

A New Look for the Plan

The pension plan adopted a new logo over the past year. The logo shows the "M" of the plan amidst the geographic features of British Columbia—mountains, land and sea—and represents the strength of the plan. The new logo will be featured on all our publications and the plan's web site.

MESSAGE FROM THE BOARD

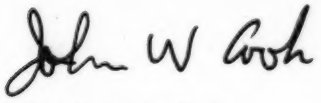
Annual General Meeting

The Municipal Pension Board of Trustees will be holding its first annual general meeting on November 2, 2002 at 10:00 a.m. in Vancouver (11:00 a.m. in Cranbrook) at the Robson Square Conference Centre. The meeting will also be broadcast live at the following locations:

- Cranbrook, *Prestige Inn*
- Nanaimo, *Coast Bastion Inn*
- Prince George, *Civic Centre*
- Kelowna, *Grand Okanagan Lakefront Resort & Conference Centre*

We invite all plan stakeholders, partners, employers and members to attend.

In closing, it has been our experience over the past year that joint trusteeship gives you a strong and powerful voice in the running of your pension plan. We look forward to serving the Municipal Pension Plan and its members. If you would like to contact us, please use the address on the back page of this report. More information is available on our web site at **pensions.bc.ca/municipal**.



John W. Cook, Chair

BOARD AS AT DECEMBER 31, 2001

Chair
John W. Cook

Trustees	Alternates	Appointing Body
Ken Bayne	Terry Frizzell	Government and Union of British Columbia Municipalities (excluded plan member)
Dennis Blatchford	Miriam Sobrino	Health Sciences Association of British Columbia
Bryan Crossfield	Peter Kafka	Health Employers Association of British Columbia
Barbara Ingamells		Union of British Columbia Municipalities
Cliff Ivers	Dave Long	Municipal Employees' Pension Committee (retired plan member)
Gary Johnson	Donisa Bernardo	Municipal Employees' Pension Committee
Janet McGregor	Bruce Kennedy	Government
Louise Mercer	Bruce Kennedy	Government
Brian Northam	Koni Marrington	Council of Joint Organizations and Unions
Ed Pakos	Mark Schulz	British Columbia Professional Fire Fighters' Association and British Columbia Federation of Police Officers
Steven Polak	Tom Knowles	Hospital Employees' Union
Sharon Saunders	Fran Macdonnell	British Columbia Nurses' Union
Joe Strain	Terry Killough	British Columbia Public School Employers' Association
Richard Taylor		Union of British Columbia Municipalities
Lyn Vandermey	Gary Moser	Health Employers Association of British Columbia
Maria Wahl	Barry O'Neill	Canadian Union of Public Employees, B.C. Division

FINANCIAL AND OPERATIONAL HIGHLIGHTS

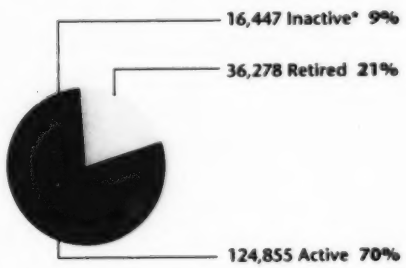
The Municipal Pension Fund holds a diversified portfolio of debt and equity investments that facilitates prudent management of risk. The investment portfolio is $15.1 billion as at December 31, 2001 (December 31, 2000 – $15.2 billion). The portfolio has declined in value, primarily as a result of negative annual investment returns. While short-term returns may continue to be more subdued, pension plans have long investment horizons and should focus on the longer term. The five-year annualized rate of return was 8.4%.

Active membership in the Municipal Pension Plan increased by about 4% in 2001. There are about 125,000 active plan members and over 36,000 retired members. The number of pensions grew about 5.9% in 2001.

Investments as at December 31, 2001

	Performance Benchmarks 2001	2001	2000
Market Value ($ Billions)		$15.1	$15.2
Market Value Rates of Return			
Basic Account			
Annual	(3.0)%	(1.4)%	7.5%
Five-year Average	8.3%	8.4%	11.9%
Inflation Account			
Annual	(3.6)%	(1.8)%	7.8%
Five-year Average		8.2%	11.9%

2001 Membership Profile



* MEMBERS NO LONGER EMPLOYED, BUT WITH MONEY IN THE PLAN

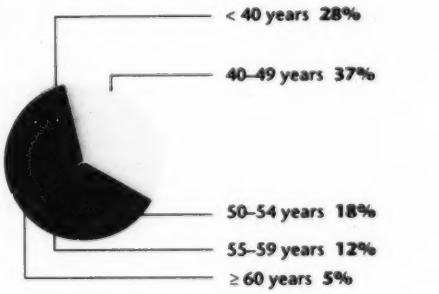
Latest Actuarial Valuation – December 31, 2000

$ Millions

	Basic Pension Benefits Net Surplus (Unfunded) 2000	1997
For Funding Purposes*	$436	($548)
Ratio of Surplus (Unfunded Liability) to Covered Payroll	9.1%	(14%)
Based on Accrued Benefits to December 31	$847	($297)

* ASSUMING CONTRIBUTIONS CONTINUE AT EXISTING RATES (IN EFFECT AT THE VALUATION DATE). THE NEXT VALUATION WILL BE AS AT DECEMBER 31, 2003, WITH THE RESULTS INCLUDED IN THE 2004 ANNUAL REPORT.

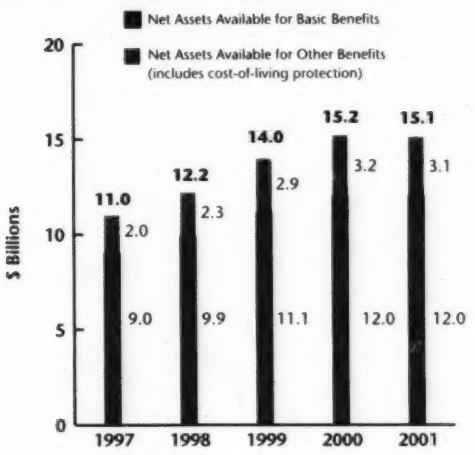
2001 Age Profile of Active Contributors



FINANCIAL AND OPERATIONAL HIGHLIGHTS

Net Assets Available for Benefits

as at December 31, 1997–2001



Five-year Summary Statement of Changes in Net Assets Available for Benefits (unaudited)

$ Thousands

For the year ended December 31	2001	2000	1999	1998	1997
Increase in Assets					
Net Investment Income					
Total Investment Income (Loss)	$ (182,933)	$ 1,074,640	$ 1,660,558	$ 1,066,410	$1,294,170
Investment Management Costs	(19,832)	(18,542)	(13,401)	(12,956)	(11,738)
	(202,765)	1,056,098	1,647,157	1,053,454	1,282,432
Contributions					
Members'	308,057	289,345	271,831	269,599	258,307
Employers'	345,111	328,169	302,592	295,578	273,589
Transfers from Other Plans	17,637	11,748	4,656	3,198	6,746
Total Increase in Assets	468,040	1,685,360	2,226,236	1,621,829	1,821,074
Decrease in Assets					
Pension Benefits	432,077	393,437	357,073	330,189	304,556
Termination Benefits	45,002	30,213	33,374	48,199	45,338
Transfers to Other Plans	13,614	11,020	1,576	1,607	3,979
Retired Member Group Benefits	39,627	34,872	30,860	27,126	25,209
Benefit Administration Costs	14,706	12,280	13,039	14,358	10,631
Total Decrease in Assets	545,026	481,822	435,922	421,479	389,713
Increase in Net Assets	(76,986)	1,203,538	1,790,314	1,200,350	1,431,361
Net Assets Available for Benefits at Beginning of Year	15,221,057	14,017,519	12,227,205	11,026,855	9,595,494
Net Assets Available for Benefits at End of Year	$15,144,071	$15,221,057	$14,017,519	$12,227,205	$11,026,855
Benefit Administration Costs	0.10%	0.08%	0.09%	0.12%	0.10%
Investment Management Costs	0.13%	0.12%	0.10%	0.11%	0.11%

ROLES AND RESPONSIBILITIES

The partners and other organizations representing plan members and plan employers are responsible for appointing the trustees. The partners are also responsible for directing amendments to the plan, if certain conditions are met, and resolving trustee disputes. The Municipal Pension Board of Trustees is fully responsible for the management of the pension fund, including the investment of the assets, and the administration of the pension plan.

The board of trustees may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the plan. Plan rule changes that result in contribution rate changes must be approved by the partners. If the actuary determines that it is necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The British Columbia Pension Corporation is the sole provider of administrative services to the pension plan. The corporation is directly answerable to the board of trustees for benefit administration service levels. In addition, the board of directors of the corporation consists of two members from each of the Municipal, College, Public Service and Teachers' pension boards, giving the pension board a strong voice in the administration of the plans.

The British Columbia Investment Management Corporation (bcIMC) is directly answerable to the board of trustees for providing investment management services within asset mix policies approved by the trustees. The bcIMC's board also includes representatives from the Municipal, College, Public Service and Teachers' pension boards.

INVESTMENTS

Message from the Chief Investment Officer

Market Review

Despite some occasional financial shocks (e.g., Asian crisis), the 1990s was an incredible decade for capital markets. The boom was attributable to many factors including a prolonged economic expansion and productivity increases resulting from technological innovations, globalization and expanded world trade. Markets also benefited from positive demographic trends, improved fiscal performance, as well as declining inflation, unemployment, and interest rates.

The positive economic and investment environment bolstered investor confidence and resulted in a significant shift in investment activity from fixed income securities to equities. Some companies' shares were pushed to very high valuations, based on the expectation that their earnings would continue to experience strong growth. This was particularly prevalent in technology companies and led to warnings from the U.S. Federal Reserve Chair about investors' "irrational exuberance."

Most equity markets reached a cyclical peak in 2000. Since that time, stock markets have been very volatile and there have been significant corrections in the underlying valuations. In terms of economic conditions, there has been a marked reduction in capital spending and economic growth during the past two years. One of the biggest concerns has been the fact that this has been a synchronized downturn, as essentially all industrial countries have experienced an economic slowdown. This prompted central banks to aggressively cut interest rates. For example, the U.S. Federal Reserve cut the federal funds rate 11 times in 2001, dropping the benchmark rate from 6% to 1.7%.

Stock prices dropped precipitously in September, following the terrorist attack on the World Trade Center. There was a strong rebound in the fourth quarter of 2001, although it generally was not sufficient to offset the earlier losses. For example, the TSE 300 was up 12.9% in the fourth quarter but down 12.6% on an annual basis. In Canadian dollar terms, the S&P 500 index was up 11.8% in the fourth quarter but down 6.4% for the year.

The impact of weak equity markets on the Municipal Pension Fund was mitigated by holding a diversified portfolio and by other defensive measures taken by the British Columbia Investment Management Corporation (bcIMC). Specifically, the bcIMC created several new pooled portfolios and modified some external manager mandates to reduce the Fund's exposure to technology and telecommunication companies. Therefore, while the basic account had disappointing returns in 2001 (-1.4%) it still beats its market benchmark (-3.0%) by a significant margin.

While 2001 returns were disappointing, the diversified approach to fund management has provided strong long-term results. For example, the 10-year annualized return of the Basic Account is still 9.5%. In addition, the correction has actually improved long-term prospects by eliminating some excesses in equity markets.

While we are hopeful that the worst may be behind us, we also believe that returns over the next decade will be much more subdued than was experienced in the 1990s. We also expect that markets will continue to exhibit a high degree of volatility. Maintaining a diversified portfolio and disciplined approach is critical to protecting the pension fund assets in these uncertain times.

INVESTMENTS

Organizational Review

The bcIMC is an independent trust company and is governed by a consortium of clients. Its board consists of seven directors, including a representative of the Municipal Pension Board of Trustees. However, in terms of investment activity, we are an agent of the Municpal Pension Plan and are directly accountable to the Municipal Pension Board of Trustees. In fact, we feel that our primary role is to serve as the Plan's internal investment staff.

The revised governance structure is functioning well and has led to a significant strengthening of the organization. Clearly, having a more dynamic and flexible organization is critical in meeting the challenges of managing global portfolios in today's volatile markets.

Looking forward, we have several strategic objectives for the current year and the future. The first is to continue improving risk management operations. The second is to meet the challenges of one-day security settlement and straight-through processing. Finally, we will continue to emphasize our goal of being a responsible investor and take a more active role in corporate governance. Unfortunately, not enough institutional investors dedicate adequate resources to fulfill this important fiduciary duty.

More information about the agency, our investment team and our management approach can be found at our web site: **www.bcimc.com**.

Doug Pearce
Chief Investment Officer/Chief Executive Officer
British Columbia Investment Management Corporation

INVESTMENTS

Strategic and short-term asset allocation targets are set within the ranges shown in the Approved Basic Account Investment Asset Mix table. Short-term, for asset mix purposes, includes government bonds with one- to five-year terms and money market funds.

Approved Basic Account Investment Asset Mix

	Market Value	
Asset Class	Lower Limit	Upper Limit
Debt	**25%**	**45%**
Short-term	0%	10%
Mortgages	0%	10%
Bonds	20%	40%
Equity	**55%**	**75%**
Canadian Equities	15%	30%
U.S. Equities	5%	20%
International Equities	10%	25%
Real Estate	5%	15%
Private Placements	0%	6%

Investment Portfolio

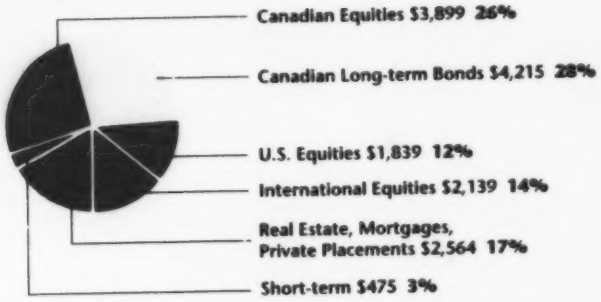
Investments Held as at December 31, 2001

	Market Value	Asset Mix % Market Value
Province of BC Pooled Investment Portfolio Units		
Money Market	$ 233,273,035	1%
Canadian Bonds		
Government	2,902,320,590	19%
Corporate	576,406,309	4%
Long-term Bonds	397,254,988	3%
Short-term Bonds	241,586,976	2%
Canadian Equities		
Indexed	2,662,337,415	18%
Actively Managed	1,236,430,691	8%
U.S. Equities		
Indexed	1,242,279,255	8%
Actively Managed	596,414,790	4%
International Equities		
Asia	326,339,498	2%
Europe	682,680,671	5%
Europe, Australia and the Far East	1,129,527,194	7%
Real Estate	1,528,164,096	10%
Mortgages	542,953,765	4%
Private Placements	493,635,286	3%
Total Pooled Portfolios	$14,791,604,559	98%
Canadian Real Return Bonds	338,861,528	2%
Total Investments	$15,130,466,087	100%
2000 Comparison	$15,193,780,702	

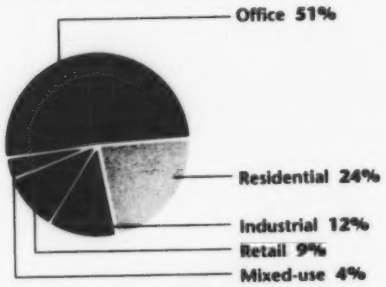
For further information on the investment portfolio, visit the bcIMC web site at **www.bcimc.com.**

INVESTMENTS

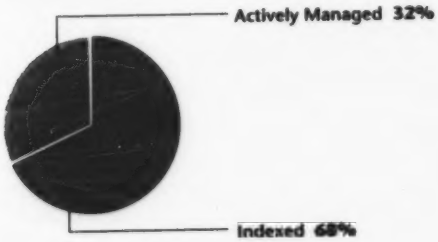
2001 Investment Holdings (Market Value)
$ Millions


Canadian Equities $3,899 26%
Canadian Long-term Bonds $4,215 28%
U.S. Equities $1,839 12%
International Equities $2,139 14%
Real Estate, Mortgages, Private Placements $2,564 17%
Short-term $475 3%

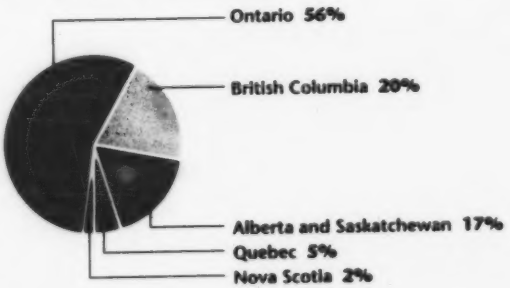
Real Estate, by Type



Canadian Equities (Market Value)



Real Estate, by Location

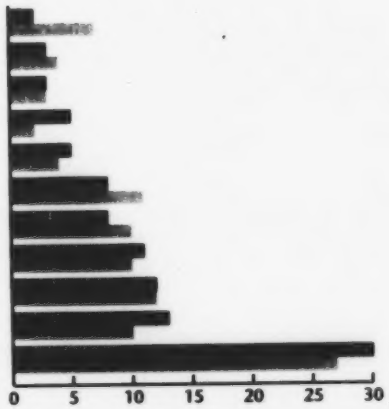


U.S. Equities (Market Value)

INVESTMENTS

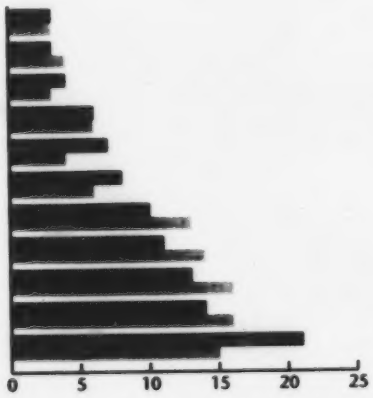
Canadian Equities, by Sector

	Indexed	Actively Managed
Other	2%	7%
Health Care	3%	4%
Consumer Staples	3%	3%
Utilities	5%	2%
Telecommunications	5%	4%
Consumer Discretionary	8%	11%
Industrial Products	8%	10%
Information Technology	11%	10%
Energy	12%	12%
Materials	13%	10%
Financial Services	30%	27%
	100%	100%



U.S. Equities, by Sector

	Indexed	Actively Managed
Other	3%	3%
Materials	3%	4%
Utilities	4%	3%
Consumer Staples	6%	6%
Telecommunications	7%	4%
Energy	8%	6%
Health Care	10%	13%
Industrials	11%	14%
Consumer Discretionary	13%	16%
Information Technology	14%	16%
Financial Services	21%	15%
	100%	100%



INVESTMENTS

International Equities

Investment Performance

Net Earned Rate of the Fund

Year	%
1997	11.3
1998	10.4
1999	13.7
2000	11.9
2001	**8.4**

RATES OF RETURN ARE BASED ON A FIVE-YEAR AVERAGE

INVESTMENTS

Market Value Rates of Return for the Year Ended December 31, 2001

	Basic Account	Inflation Adjustment Account	Basic Account Performance Benchmarks	
Five-year Average Rates				
2001	**8.4%**	**8.2%**	**8.3%**	
2000 Comparison	11.9%	11.9%	12.1%	
Annual Rates				
2001	**-1.4%**	**-1.8%**	**-3.0%**	
2000 Comparison	7.5%	7.8%	6.2%	
2001 Annual Rates by Investment Category			**2001 Performance Benchmark Indices**	
Short-term				
Money Markets	5.0%	5.0%	4.7%	SCI 91-Day Treasury Bills
Bonds	9.5%	9.5%	9.2%	SCI All Gov't Short-term Universe
Bonds				
Government	7.8%	7.8%	7.7%	SCI Government
Corporate	9.6%	9.6%	9.3%	SCI Corporate Universe
Long-term	5.8%	5.8%	5.7%	SCI Government LT
Real Return	–	0.3%	0.6%	SCI Real Bond
Canadian Equities				
Actively Managed	-1.8%	-1.8%	-8.4%	TSE 300 Capped
Indexed	-12.3%	-12.3%	-12.6%	TSE 300
U.S. Equities				
Actively Managed	-4.6%	-4.6%	-7.0%	R 1000
Indexed	-6.3%	-6.3%	-6.4%	S&P 500
U.S. Value	-6.4%	-6.4%	-6.2%	S&P 500 Value
U.S. Enhanced	-8.4%	-8.4%		
International Equities				
Asia	-12.9%	-12.9%	-20.2%	MSCI Pacific Basin Net
Europe	-16.0%	-16.0%	-15.3%	MSCI Europe Net
Europe, Australia and the Far East	-13.9%	-13.9%	-16.5%	MSCI Europe, Australia, Far East Net
Real Estate	8.4%	8.4%		
Mortgages				
Fixed-term	9.1%	9.1%	10.5%	SCI Short-term Bonds + 1%
Construction	6.6%	6.6%	8.1%	SCI One-year Bill + 1%
Specialty	10.3%	10.3%	9.7%	SCI One-year Bill + 2.5%

Performance Benchmark Indices Abbreviations

SCI	=	**Scotia Capital Inc.**
S&P	=	**Standard & Poor's**
MSCI	=	**Morgan Stanley Capital International**
MSCI EAFE	=	**Morgan Stanley Capital International Europe, Australia & Far East**
R	=	**Russell**
TSE	=	**Toronto Stock Exchange**

(SOURCE OF ANNUAL RATES: BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION)

ACTUARIAL VALUATION/ PLAN FUNDING

The Municipal Pension Plan is financially sound. At least every three years, an independent actuary assesses the plan's financial health and the adequacy of the contribution rates for funding the plan. The actuarial valuation as at December 31, 2000 indicates a funding surplus for basic pension benefits of $436 million, improved from the $548 million unfunded liability as at the previous December 31, 1997 valuation. The most significant positive items contributing to the $984 million improvement were higher actual investment returns and lower actual salary increases. The joint trust agreement specifies how surplus assets can be used. The next valuation will be as at December 31, 2003.

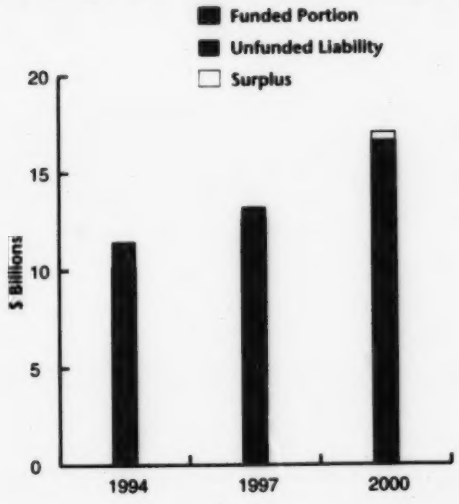
Latest Actuarial Valuation – December 31, 2000

$ Millions

	Basic Pension Benefits Net Surplus (Unfunded)		
	2000	1997	1994
For Funding Purposes*	$436	($548)	($1,309)
Ratio of Surplus (Unfunded) Liability to Covered Payroll	9.1%	(14%)	(36%)
Based on Accrued Benefits to December 31	$847	($297)	($1,081)

* ASSUMING CONTRIBUTIONS CONTINUE AT EXISTING RATES (IN EFFECT AT THE VALUATION DATE). THE NEXT VALUATION WILL BE AS AT DECEMBER 31, 2003, WITH THE RESULTS INCLUDED IN THE 2004 ANNUAL REPORT.

Funding of the Total Basic Benefit Liability



PLAN BENEFITS

The Municipal Pension Plan is a defined benefit pension plan. Benefits are based on the member's highest five years of salary, length of service and age at retirement. The plan provides entitlement to a pension benefit after two years of contributory service. The number of pensions granted in 2001 increased by 3%. The plan also provides survivor and disability benefits.

Pensions

The number of pensioners grew 5.9% in 2001. The number of pensions granted in 2001 increased 3% over the number granted in 2000.

Pensions are paid at the end of each month, beginning with whichever of the following comes latest:

- the month following the month in which the plan member becomes eligible
- the month following the month in which the plan member receives their final salary, or
- the month in which the Pension Corporation receives the member's application.

The plan pays a full month's pension for the month in which a pensioner dies.

Basic pensions have a significant value. The value of a basic pension depends on a number of factors, including the member's age, salary and years of service at retirement.

Average Values of Pensions Granted January 1, 2001 to December 31, 2001
(Combination of those whose retirement age was 60 and 65)
Subdivided by years of service

Years of Service	Number of Pensions Granted	Average Annual Salary Base	Average Annual Pension (Single Life Option)	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
< 10 years	344	$35,000	$ 3,700	$ 52,000	$ 17.8
10–14	418	40,000	7,300	104,000	43.5
15–19	331	42,000	11,100	159,000	52.6
20–24	401	46,000	14,800	211,000	84.6
25–29	340	54,000	21,700	326,000	101.8
30–34	265	58,000	27,300	424,000	112.4
≥ 35 years	74	61,000	31,700	479,000	35.4
Total	2,173	n/a	n/a	n/a	$448.1
All Pension Average	n/a	$46,000	$14,200	$210,000	n/a

The table above shows the average asset value ("present value") of pensions granted during 2001. The value represents approximately how much it would cost to purchase an average basic pension provided under the Municipal Pension Plan.

PLAN BENEFITS

Pensions 1992–2001

	Granted during Year	Pension Terminations	In Force at End of Year	Basic Pensions Paid ($ Millions)	Inflation Supplements Paid ($ Millions)	Special Agreement Supplements Paid ($ Millions)	Total ($ Millions)
1992	1,578	376	20,695	157.8	50.5	0.1	208.4
1993	1,695	407	21,983	170.9	51.7	0.1	222.7
1994	1,991	418	23,556	188.0	53.9	0.1	242.0
1995	1,964	447	25,073	205.6	53.0	0.1	258.7
1996	2,080	439	26,714	224.0	57.0	0.1	281.1
1997	2,282	502	28,494	245.4	59.1	0.1	304.6
1998	2,340	606	30,228	268.4	61.6	0.2	330.2
1999	2,652	604	32,276	295.2	61.6	0.3	357.1
2000	2,629	636	34,269	325.1	67.9	0.4	393.4
2001	**2,707**	**698**	**36,278**	**$356.2**	**$75.1**	**$0.7**	**$432.0**

Pensions Granted, by Type 1992–2001

	Regular*	Death*	Disability+	Deferred	Total
1992	1,245	36	168	129	1,578
1993	1,334	62	176	123	1,695
1994	1,588	51	220	132	1,991
1995	1,575	52	200	137	1,964
1996	1,670	59	205	146	2,080
1997	1,815	47	274	146	2,282
1998	1,842	74	243	181	2,340
1999	1,992	50	447	163	2,652
2000	2,089	80	323	137	2,629
2001	**2,173**	**70**	**301**	**163**	**2,707**

* PENSIONS GRANTED DO NOT INCLUDE ANY PENSION CONTINUED TO A BENEFICIARY.
+ LTD PENSIONS ARE FOR THOSE MEMBERS ON LONG-TERM DISABILITY WHO BECAME ELIGIBLE FOR A REGULAR PENSION.

2001 Regular Pensions Granted by Age at Retirement

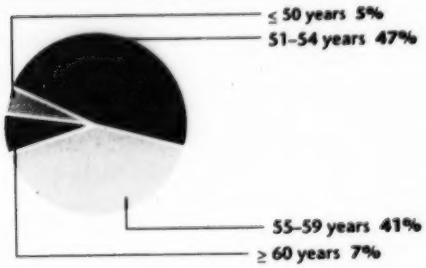
(For those whose normal retirement age was 60 [police officers and fire fighters])
Subdivided by years of service and age at retirement

Years of Service	50	51–54	55–59	60+	Total
< 10 years	–	2	–	–	2
10–14	–	–	2	1	3
15–19	–	–	3	1	4
20–24	–	–	4	6	10
25–29	4	47	30	6	87
30–34	6	50	35	–	91
≥ 35 years	–	2	12	1	15
Total	**10**	**101**	**86**	**15**	**212**

PLAN BENEFITS

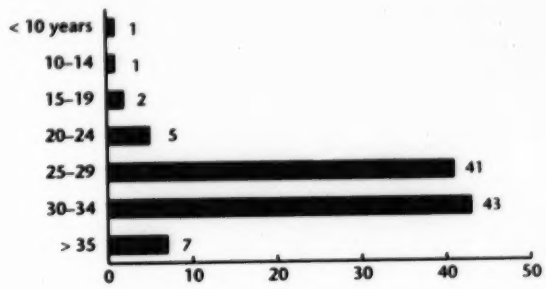
Percentage of 2001 Regular Pensions Granted by Age

Normal retirement, age 60



Percentage of 2001 Regular Pensions by Years of Service

Normal retirement, age 60



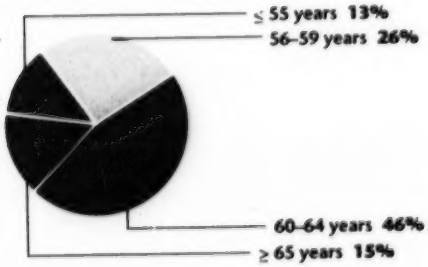
2001 Regular Pensions Granted by Age at Retirement

(For those whose normal retirement age was 65 [all plan members except police officers and fire fighters])
Subdivided by years of service and age at retirement

Years of Service	55	56–59	60–64	65+	Total
< 10 years	35	80	135	92	342
10–14	53	94	196	72	415
15–19	49	80	155	43	327
20–24	50	78	211	52	391
25–29	32	69	127	25	253
30–34	19	78	66	11	174
≥ 35 years	20	19	17	3	59
Total	258	498	907	298	1,961

Percentage of 2001 Regular Pensions Granted by Age

Normal retirement, age 65



Percentage of 2001 Regular Pensions by Years of Service

Normal retirement, age 65

PLAN BENEFITS

Termination Benefits

A terminating member may be eligible for one or more of the following benefits:

- a refund of contributions with interest
- a transfer of the commuted value, which represents the net present value of a pension entitlement, to a locked-in registered retirement savings plan or a registered pension plan, or
- a deferred pension.

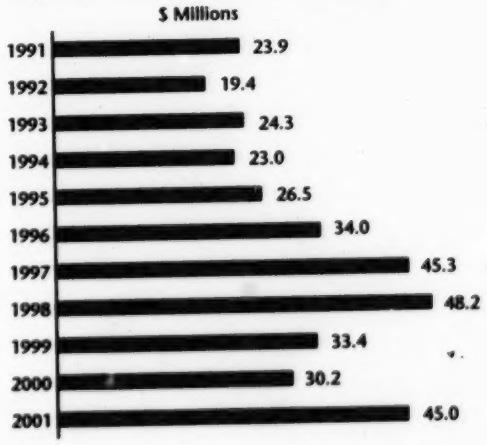
The number and value of termination benefits paid can vary from year to year, depending on the employment environment, the type of termination benefit paid and the plan member's entitlement.

In 2001, the number and value of termination benefits paid increased significantly compared to 2000.

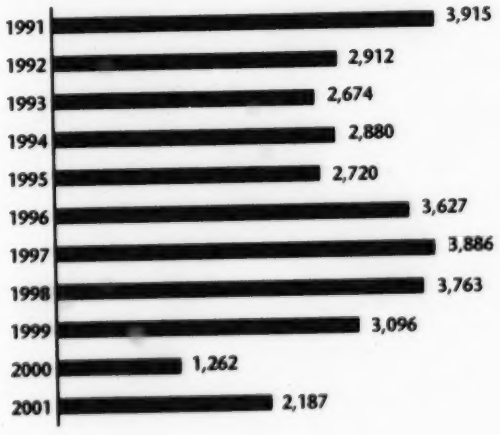
If a member leaves the plan and is eligible for a refund of contributions, the refund includes interest. Interest compounds annually and is credited to the member's contribution balance. The balance, including interest, is included in the plan member's Annual Benefit Statement.

The rate of interest is governed by provincial pension standards and plan rules. It is based on average five-year bank personal term deposit rates.

Value Of Termination Benefits Paid



Number of Termination Benefits Paid



TERMINATION BENEFITS PAID INCLUDE ONLY REFUNDS OF CONTRIBUTIONS AND COMMUTED VALUE PAYMENTS; DEFERRED PENSIONS ARE INCLUDED IN PENSION STATISTICS.

Annual Rates for Interest Credited to Contribution Balances

1997	4.54%
1998	4.30%
1999	4.56%
2000	5.28%
2001	4.00%

PLAN BENEFITS

Portability Provisions

Portability allows pension plan members to carry pension rights from one plan to another. For instance, members of the Municipal Pension Plan may carry their years of pensionable service and contributions to a new plan at a different place of employment if the new plan has a portability agreement with the Municipal Pension Plan. Employers that allow pension plan members to transfer their pension rights to other pension plans are called "reciprocal employers."

Members of the Municipal Pension Plan who have made contributions to another pension plan should inquire about portability agreements.

In 2001, there were 348 reciprocal transfers-in from other pension plans and 212 transfers-out. The transfers-in totaled approximately $17.6 million; transfers-out totaled approximately $13.6 million. As a result of changes in interplan portability provisions, transfers now include transfers between the Municipal Pension Plan and three other B.C. public sector plans (College, Teachers' and Public Service).

Purchase of Additional Service

It may be possible for plan members to purchase additional service. This service may include:

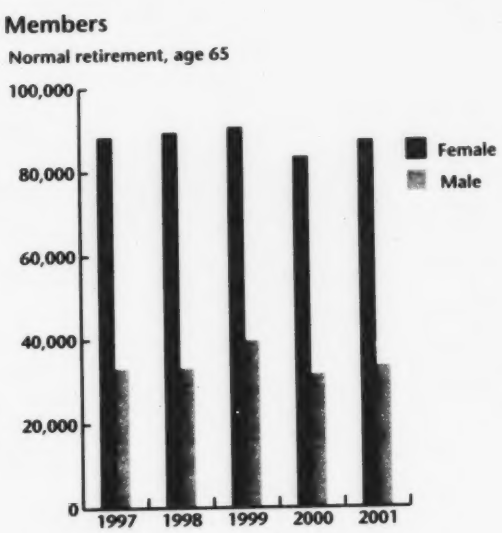
- approved leaves of absences
- arrears contributions
- non-contributory service, or
- reinstatement of refunded contributions.

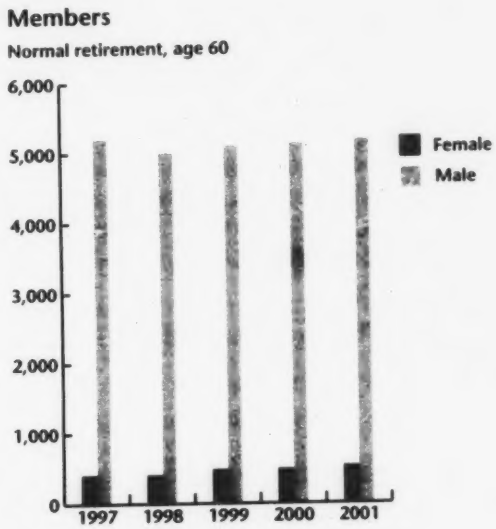
Member and Employer Purchases of Additional Service

	Number of Purchases		Value of Purchases ($ Thousands)	
	2001	2000	**2001**	2000
Reinstatement of Refunded Contributions	**522**	252	**$5,410**	$2,763
Non-contributory Service	**1,304**	416	**4,860**	3,700
Other	**1,140**	604	**3,393**	1,810
Total	**2,966**	1,272	**$13,663**	$8,273

PLAN MEMBERS

Membership in the Municipal Pension Plan is open to all eligible employees of a municipality, school district, regional college or other employer designated by the board. Once an employee elects or qualifies to contribute to the plan, contributions continue as long as the employee remains with the employer, or until the employee has completed 35 years of service.





PLAN MEMBERS

There are three types of members in the Municipal Pension Plan:

- Active members are currently contributing, receiving benefits from an approved salary continuance plan or are on a leave of absence.
- Inactive members have terminated their employment with contributions deposited in the plan. They may or may not be eligible for a pension in the future. Those who are eligible are known as vested and deferred members. Even if an inactive member is not entitled to a Municipal Pension Plan benefit, they may be eligible for a pension as a result of combining their entitlement in other pension plans covered by the Interplan Pension Transfer Agreement. From 1998 onward, the number of vested and deferred members has been adjusted to include these inactive members.
- Retired members are receiving a pension.

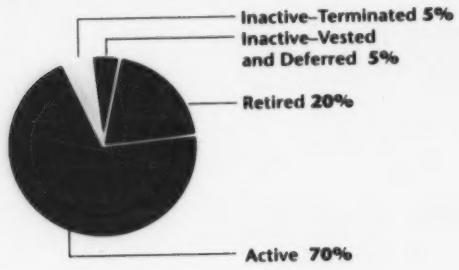
Active membership in the Municipal Pension Plan increased by about 4% in 2001. There are about 125,000 active plan members and over 36,000 retired plan members. The number of retired members grew 5.9% in 2001.

Number of Members

	Active	Inactive, Terminated	Inactive, Vested and Deferred	Retired	Total
1997	108,093	11,157	4,354	28,494	152,098
1998	111,366	10,906	4,566	30,228	157,066
1999	115,353*	8,156	6,207	32,276	161,992
2000	120,048	8,029	7,639	34,269	169,985
2001	**124,855**	**7,897**	**8,550**	**36,278**	**177,580**

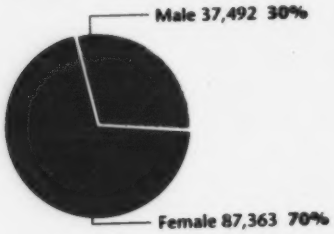
* 1999 ACTIVE HAS BEEN RESTATED TO INCLUDE LEAVE OF ABSENCE (LOA) MEMBERS

2001 Member Profile

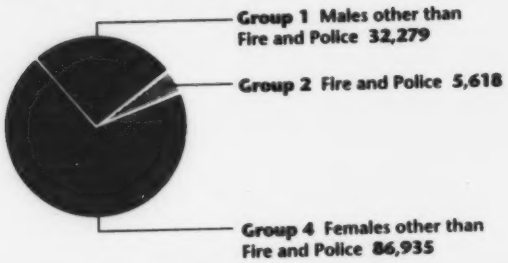


PLAN MEMBERS

2001 Active Member Profile



Active Members by Group


Group 1 Males other than Fire and Police 32,279
Group 2 Fire and Police 5,618
Group 4 Females other than Fire and Police 86,935

NOTE: THERE ARE ALSO 23 **GROUP 3** FEMALES SPECIAL CLOSED GROUP.

Active Members by Employer Group

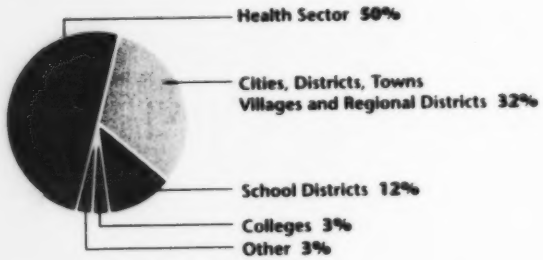
	Group 1	Group 2	Group 3	Group 4	Total
Cities, Districts, Towns, Villages and Regional Districts	13,465	5,544	10	8,826	27,855
Health Sector	8,916	–	2	58,006	67,924
School Districts	6,591	–	9	13,732	20,332
Colleges	1,295	–	1	3,519	4,815
Miscellaneous	1,012	64	1	2,852	3,929
Total	32,279	5,618	23	86,935	124,855

PLAN EMPLOYERS

Municipal Pension Plan Employers

	Number of Employers
Cities, Districts, Towns, Villages and Regional Districts	183
Health Sector	276
School Districts	57
Colleges	24
Miscellaneous	133
Total	673

Total Regular Contributions by Employer Sector as a Percentage



CONTRIBUTIONS

Employer Contribution Rates by Group and Age

Group	< 50 Years	≥ 50 Years	< 45 Years	≥ 45 Years
1	4.9%	9.8%	n/a	n/a
2	n/a	n/a	8.5%	17.0%
3	n/a	n/a	5.6%	11.2%
4	5.4%	10.8%	n/a	n/a

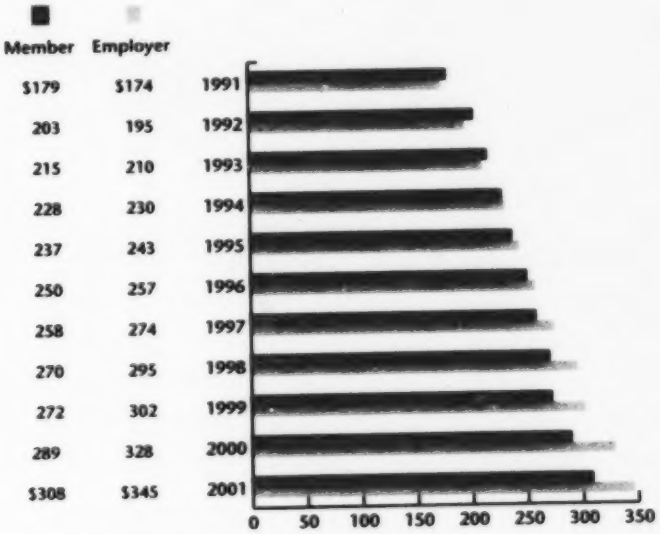
THE CONTRIBUTION RATES IN THE TABLE ABOVE ARE APPLIED TO PENSIONABLE SALARIES GREATER THAN OR EQUAL TO THE CANADA PENSION PLAN YEAR'S MAXIMUM PENSIONABLE EARNINGS (CPP YMPE). CONTRIBUTION RATES FOR SALARIES LESS THAN THE YMPE ARE 1.5% LOWER.

Member Contribution Rates

Members contribute 6% of salaries up to the Canada Pension Plan YMPE and 7.5% of salaries above that amount.

Contributions

$ Millions



NOTE: TOTAL CONTRIBUTIONS INCLUDE THOSE FOR PURCHASES OF SERVICE.

FINANCIAL STATEMENTS

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800 - 730 View Street
Victoria BC V8W 3Y7

Telephone (250) 480-3500
Telefax (250) 480-3539
www.kpmg.ca

AUDITORS' REPORT

To the Members of the Municipal Pension Plan

We have audited the statement of net assets available for benefits of the Municipal Pension Plan as at December 31, 2001 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at December 31, 2001 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures as at and for the year ended December 31, 2000 were reported on by the Auditor General of British Columbia.

KPMG LLP

Chartered Accountants

Victoria, Canada

June 21, 2002

FINANCIAL STATEMENTS

PENSION CORPORATION

Executive Offices

Mailing Address:
PO Box 9460
Stn Prov Govt
Victoria BC
V8W 9V8

Location:
2995 Jutland Road
Victoria BC
V8T 5J9

Phone:
250-387-8201
1-800-663-8823
Fax:
250-387-4199

MUNICIPAL PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan were prepared by the British Columbia Pension Corporation, the administrative agent for the board of trustees for the pension plan. The board of trustees is responsible for having annual financial statements prepared in accordance with generally accepted accounting principles. The Corporation prepares the financial statements on the board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Annual Report for the pension plan conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the plan by the board of trustees. The role of the actuary is to complete an actuarial valuation of the plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the plan by the board of trustees. The role of the auditor is to perform an independent audit of the financial statements of the pension plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the auditors' report attached to these financial statements.

JOHN A. MOCHRIE
Chief Executive Officer
British Columbia Pension Corporation

P. LOUISE YOUNG, C.A.,
Vice-President, Information Management,
Finance and Administration
British Columbia Pension Corporation

June 21, 2002

FINANCIAL STATEMENTS

MUNICIPAL PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

December 31	2001	2000
ASSETS		
Investments (Note 3)	$ 15,130,466	$ 15,193,781
Receivables		
Members' contributions	12,900	13,956
Employers' contributions	13,373	14,380
Accrued investment income	1,129	1,097
Due from sale of investments	-	14,150
Other	60	33
	27,462	43,616
Prepaid expenses	3,508	2,220
Cash	6,999	8,186
Total Assets	15,168,435	15,247,803
LIABILITIES		
Payable for purchase of investments	11,500	16,230
Accounts payable and accrued expenses (Note 9)	12,864	10,516
Total Liabilities	24,364	26,746
NET ASSETS AVAILABLE FOR BENEFITS	$ 15,144,071	$ 15,221,057

Obligations for Pension Benefits for Funding Purposes (Note 7)
Obligations for Pension Benefits for Accounting Purposes (Note 8)
Commitments (Note 11)

All accompanying notes are an integral part of these financial statements.

John W. Cook, F.C.I.A.,
Chair,
Municipal Pension Board of Trustees

Ken Bayne
Trustee,
Municipal Pension Board of Trustees

Steven Polak
Trustee,
Municipal Pension Board of Trustees

FINANCIAL STATEMENTS

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2001	Totals 2000
INCREASE IN ASSETS						
Net investment income (loss) (Note 4)	$ (154,675)	$ (4,471)	$ (43,619)	$ -	$ (202,765)	$ 1,056,098
Contributions (Note 5)						
Members'	252,490	6,995	47,614	958	308,057	289,345
Employers'	282,069	8,242	15,323	39,477	345,111	328,169
	534,559	15,237	62,937	40,435	653,168	617,514
Transfers from other plans	13,002	-	4,635	-	17,637	11,748
Total Increase in Assets	392,886	10,766	23,953	40,435	468,040	1,685,360
DECREASE IN ASSETS						
Pension benefits						
Contributory	356,309	11	-	661	356,981	325,518
Indexing supplements	75,096	-	-	-	75,096	67,919
	431,405	11	-	661	432,077	393,437
Termination benefits	31,496	178	13,328	-	45,002	30,213
Transfers to other plans	9,895	32	3,687	-	13,614	11,020
Retired member group benefits (Note 10)	-	-	-	39,627	39,627	34,872
Benefit administration costs (Note 9)	14,559	-	-	147	14,706	12,280
Total Decrease in Assets	487,355	221	17,015	40,435	545,026	481,822
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	(94,469)	10,545	6,938	-	(76,986)	1,203,538
Account transfers (Note 6)	72,832	(25,945)	(46,887)	-	-	-
INCREASE (DECREASE) IN NET ASSETS	(21,637)	(15,400)	(39,949)	-	(76,986)	1,203,538
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	11,991,837	324,821	2,904,399	-	15,221,057	14,017,519
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 11,970,200	$ 309,421	$ 2,864,450	$ -	$ 15,144,071	$ 15,221,057

Supplemental Benefits Account (Note 10)

FINANCIAL STATEMENTS

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

The *Public Sector Pension Plans Act* was passed by the BC legislature on July 15, 1999. Effective April 1, 2000, the existing *Pension (Municipal) Act* and related regulations, which had previously governed the plan, were repealed and the Municipal Pension Plan became governed by Schedule B of the new act. The act allowed for named partners to negotiate and enter into a Joint Trust Agreement. The member partner was the Municipal Employees' Pension Committee and the employer partners were the provincial government, the Union of British Columbia Municipalities and the Health Employers Association of British Columbia. The employer partners on an ongoing basis are the provincial government and the Union of British Columbia Municipalities. Effective April 5, 2001, a Joint Trust Agreement was implemented and now governs the pension plan. The pension plan rules are made under the authority of that agreement. The agreement also describes the composition, appointment, powers, functions and duties of the Municipal Pension Board of Trustees. As a result, Part 1 of Schedule B of the act and related regulations to the schedule were repealed.

a) General

The plan is a defined benefit pension plan open to eligible employees of a municipality, a body designated under the *College and Institute Act* or other body designated by the board.

b) Roles and Responsibilities

The Board of Trustees

The partners and key stakeholders are responsible for appointing the trustees other than the chair, directing amendment to the plan if certain conditions are met and resolving trustee disputes. The Municipal Pension Board of Trustees consists of up to seventeen members. Sixteen members representing plan members and plan employers are appointed by the partners and other organizations representing plan employers and plan members. An alternate trustee may be appointed for each primary trustee. There is a seventeenth trustee, the chair, who is appointed by the other trustees. The board is fully responsible for the management of the pension plan, including investment of the assets and administration of the pension plan. The board may amend the pension plan rules as long as changes can be funded by pension fund surplus. Unless required to ensure compliance with regulatory enactments applicable to the pension plan, plan changes that result in contribution rate changes can only be initiated by the partners.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (CONTINUED)

b) Roles and Responsibilities (continued)

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation is the provider of benefit administration services to the pension plan. The Pension Corporation is answerable to the board for benefit administration service levels.

The British Columbia Investment Management Corporation (bcIMC)
bcIMC is answerable to the board for providing investment management services within investment policies approved by the trustees.

c) Contributions

Basic Account
Members contribute to the Basic Account 5.0% of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($38,300 in 2001), and 6.5% of salaries above that.

Employers contribute to the Basic Account at varying rates, depending on the mix of employees in the group rate classifications specified by the plan, less amounts allocated to the Supplemental Benefits Account (2001 - $7.7 million; 2000 - $7.3 million) (see Note 10).

Inflation Adjustment Account and Supplemental Benefits Account
Members contribute 1.0% of salaries to the Inflation Adjustment Account (IAA). Employers contribute 1.0% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account (2001 - $31.7 million; 2000 - $27.7 million) (see Note 10).

Retirement Annuity Account
Some employers have special agreements with members by which both make extra contributions to increase the members' pensions. These contributions are credited to the Retirement Annuity Account; they are transferred at retirement to the Basic Account as additional pensions are purchased with the accumulated monies.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (CONTINUED)

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least two years of contributory service (age 55 for certain groups); or
- at age 55 or older, with age plus years of service equalling 90 or more (age 50 or older and age plus service equalling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

The basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.3% of pensionable earnings, up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years). Pensionable earnings is based on the member's five-year highest average salary (HAS). The plan also provides a bridging benefit with CPP which is payable to age 65 (or the date of death, if earlier). The bridging benefit is 0.7% of the lesser of YMPE or the HAS.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6 and 7b).

At January 1, 2001, retired members received a full CPI increase of 2.7% (2000 – 2.6%); at January 1, 2002, retired members will receive a full CPI increase of 2.6%.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (CONTINUED)

e) Termination and Portability Benefits

A terminating member who has not yet reached the earliest age at which the member would be eligible to receive an immediate pension is eligible to choose one or more of the following benefits:

- a deferred pension;
- a refund of member's contributions with interest; or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in RRSP or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements.

Where there are portability arrangements between the plan and other plans, members may be able to carry certain pension rights to those other plans, or transfer contributions and service from those other plans to increase pension benefits under the plan.

f) Other Benefits

Disability and survivor benefits are also available under the plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account of the pension fund. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

g) Income Taxes

The plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)*, except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The RPP is not subject to income taxes.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the pension plan as a separate financial reporting entity, independent of the plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the plan, and does not purport to show their adequacy to meet the obligations of the plan.

b) Investments

Investments are stated at market value. Market value is derived from external quotations or appraisals. Investment purchases and sales are recorded on trade date.

c) Investment Income

Investment income is recorded on the accrual basis.

d) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments and the actuarial estimate of the actuarial surplus for the Basic Account.

FINANCIAL STATEMENTS

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

3. INVESTMENTS (Market Value)

	2001			2000
	Basic Account	Inflation Adjustment Account	Total	Total
			($ Thousands)	
Short-term	$ 196,863	$ 36,410	$ 233,273	$ 94,897
Canadian Bonds	3,583,942	872,489	4,456,431	5,046,014
Canadian Equities	3,741,679	876,788	4,618,467	4,658,781
U.S. Equities	888,526	230,469	1,118,995	1,462,530
International Equities	1,730,075	408,472	2,138,547	1,695,064
Mortgages	436,276	106,678	542,954	500,179
Real Estate	1,246,463	281,701	1,528,164	1,304,125
Private Placements	489,862	3,773	493,635	432,191
	$12,313,686	$2,816,780	$15,130,466	$15,193,781

Plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by the bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares and, in the case of international equities, refer to investments in Europe, Australia and the Far East.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of Canadian diversified income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. The real estate is valued at least semi-annually by the real estate investment managers and, on average, annually by external appraisal to establish current market values. Private placements are valued annually.

For administrative purposes, the Retirement Annuity Account assets are included in Basic Account Investments (2001 - $309.4 million; 2000 - $324.8 million).

FINANCIAL STATEMENTS

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

4. INVESTMENT INCOME

	2001			2000
	Income Allocation	Current Period Change In Market Value	Total	Total
			($ Thousands)	
Basic Account				
Short-term	$ 8,903	$(302,428)	$(293,525)	$ 9,183
Canadian Bonds	221,196	66,842	288,038	398,493
Canadian Equities	61,471	(14,671)	46,800	532,133
U.S. Equities	15,036	(110,185)	(95,149)	(45,563)
International Equities	27,851	(245,433)	(217,582)	(183,383)
Mortgages	30,243	4,413	34,656	39,222
Real Estate	59,048	28,524	87,572	78,164
Private Placements	3,735	2,587	6,322	62,153
	$427,483	$(570,351)	$(142,868)	$ 890,402
Investment Management Costs			(16,278)	(15,447)
Net Investment Income (Loss)			(159,146)	874,955
Retirement Annuity Account Income Allocation			4,471	(23,039)
			$(154,675)	$ 851,916
Inflation Adjustment Account				
Short-term	$ 1,642	$ (67,735)	$ (66,093)	$ 2,896
Canadian Bonds	52,178	(6,963)	45,215	102,065
Canadian Equities	14,193	4,904	19,097	103,061
U.S. Equities	3,459	(22,700)	(19,241)	(10,538)
International Equities	6,373	(52,791)	(46,418)	(39,018)
Mortgages	6,496	1,558	8,054	8,720
Real Estate	13,508	6,458	19,966	17,052
Private Placements	7	(652)	(645)	-
	$ 97,856	$(137,921)	$ (40,065)	$ 184,238
Investment Management Costs			(3,554)	(3,095)
Net Investment Income (Loss)			$ (43,619)	$ 181,143
Total Basic, Inflation Adjustment and Retirement Annuity Accounts				
Total Investment Income (Loss)			$(182,933)	$1,074,640
Total Investment Management Costs (Note 9)			(19,832)	(18,542)
Total Net Investment Income (Loss)			$(202,765)	$1,056,098

The income allocation portion of investment income represents pooled investment portfolio income attributable to the plan, as a unitholder, and as calculated by the bcIMC, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio. The Retirement Annuity Account is allocated a share of Basic Account investment income (loss) based on the annual rate of return of the Basic Account.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

5. CONTRIBUTIONS

	2001					2000
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
					($ Thousands)	
Members' contributions						
Regular	$243,802	$ -	$46,879	$ -	$290,681	$277,666
Special agreement	-	6,995	-	-	6,995	5,966
Arrears	811	-	417	-	1,228	703
Purchase of service	2,143	-	255	-	2,398	1,682
Leave of absence	330	-	57	-	387	91
Reinstatement	5,404	-	6	-	5,410	2,763
Supplemental benefits	-	-	-	958	958	474
	252,490	6,995	47,614	958	308,057	289,345
Employers' contributions						
Regular	278,292	-	14,888	-	293,180	282,485
Special agreement	-	8,214	-	-	8,214	7,752
Arrears	1,276	-	158	-	1,434	928
Purchase of service	2,211	28	223	-	2,462	2,018
Leave of absence	290	-	54	-	344	87
Supplemental benefits	-	-	-	39,477	39,477	34,899
	282,069	8,242	15,323	39,477	345,111	328,169
Total Contributions	$534,559	$15,237	$62,937	$40,435	$653,168	$617,514

Employer regular Inflation Adjustment Account contributions were $46.9 million of which $32.0 million was allocated to the Supplemental Benefits Account; and employer regular Basic Account contributions were $285.8 million, of which $7.5 million was allocated to the Supplemental Benefits Account.

6. ACCOUNT TRANSFERS

	2001			2000		
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Basic Account	Retirement Annuity Account	Inflation Adjustment Account
			($ Thousands)			
Present value of current indexing supplements	$90,424	$ -	$(90,424)	$ 78,365	$ -	$(78,365)
Indexing of deferred pensions	777	-	(777)	754	-	(754)
Excess interest	(44,314)	-	44,314	(161,102)	-	161,102
Pensions purchased from Retirement Annuity Account	25,945	(25,945)	-	23,662	(23,662)	-
	$72,832	$(25,945)	$(46,887)	$(58,321)	$(23,662)	$ 81,983

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

6. ACCOUNT TRANSFERS (CONTINUED)

A separate account is maintained for funding current and future indexing supplements. This Inflation Adjustment Account (IAA) is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid – $3,853 million ($3.9 billion) of assets for 2001 ($3.4 billion for 2000). The excess interest rate of return is determined by taking the difference between the actual market rate of return and the rate of return used by the actuary (7.25%) in valuing the plan's liabilities. The actual rate of return is based on a five-year average. The calculated excess interest rate of return for 2001 was 1.15% (2000 – 4.65%). Should the excess interest rate calculation ever result in a negative return, the negative return will be carried forward and offset against future excess returns.

A separate Retirement Annuity Account is maintained to record extra contributions by employers and members under special agreements. Monies are transferred at retirement from the Retirement Annuity Account to the Basic Account as additional pensions are purchased.

7. OBLIGATION FOR PENSION BENEFITS FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry age method.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

7. OBLIGATION FOR PENSION BENEFITS FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

The most recent full actuarial valuation for funding purposes was prepared as at December 31, 2000. This valuation disclosed a surplus for basic pension benefits of $436 million (1997 - $548 million unfunded liability), assuming future contributions at the contribution rates in effect at the valuation date.

The main changes between the 1997 and 2000 valuations are as follows:

	($ Millions)
Unfunded actuarial liability as at December 31, 1997	$ (548)
Interest on unfunded liability	(128)
Investment income in excess of actuarial rate of return	1,037
Salary increases less than previously assumed	411
Changes in benefits and actuarial assumptions	(336)
Actuarial Surplus as at December 31, 2000	$ 436

The following table shows a key indicator of the financial health of a pension plan, the Basic Account surplus or unfunded actuarial liability (UAL) as a percentage of payroll, for the three most recent actuarial valuations. (Values shown in the table assume future contributions at the rates in place at the time, rather than the actuary's calculated rates.)

Actuarial Valuation Date	Actuarial Value of Basic Account Assets (w)	Basic Account Actuarial Liability (x)	Basic Account Surplus (UAL) (y)	Covered Payroll (z)	Surplus/(UAL) as a Percentage of Payroll (y/z)
	($ Millions)				
1994	10,132	11,442	1,310	3,665	(36%)
1997	12,654	13,202	(548)	3,917	(14%)
2000	17,049	(16,613)	436	4,639	9%

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

7. OBLIGATION FOR PENSION BENEFITS FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

The Joint Trust Agreement specifies a transitional period during which surplus assets or actuarial gains must be used to achieve the following objectives in the following order:

- Eliminate unfunded liability
- Rebalance member and employer contribution rates and provide specified benefit improvements when sufficient surplus assets allow simultaneous implementation
- Contribution rate stabilization reserve and Inflation Adjustment Account (IAA) - 50% of any additional surplus assets must be transferred to a contribution rate stabilization reserve and 50% must be transferred to the IAA to an aggregate of one billion dollars. The contribution rate stabilization reserve will be shared on an equal (50/50) basis in order to maintain or reduce future member and employer contribution rates.

After these transitional objectives have been achieved, the agreement describes the manners in which the board can elect to apply surplus assets so as to achieve over time an equitable sharing of the benefits of the surplus assets between members and employers.

The agreement describes that if at any time, an actuarial valuation indicates that increased basic contribution rates are required to fully fund the plan on a going-concern basis, the increase must be shared equally by members and employers.

b) Inflation Adjustment Account

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members full funding for that granted indexing, on a net present value basis, is transferred from the Inflation Adjustment Account to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the plan rules, nor is there any plan provision or intention to fund the Inflation Adjustment Account to any minimum level of future potential indexing.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

7. OBLIGATION FOR PENSION BENEFITS FOR FUNDING PURPOSES (CONTINUED)

b) Inflation Adjustment Account (continued)

The Municipal Pension Board of Trustees monitors the performance of the Inflation Adjustment Account and, at least annually, reviews the projected impact on the account of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefit costs. This sensitivity analysis assists the board to identify, some years in advance of its possible occurrence, the point at which the Inflation Adjustment Account assets may cease to grow and beyond that, the point at which full indexing benefits may not be able to be granted. As long as there are contributions to the Inflation Adjustment Account, there will be some measure of indexing protection for retired members.

8. OBLIGATIONS FOR PENSION BENEFITS FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years and its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the plan as described in Note 7a. As part of the actuarial valuation the actuary also calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included as they are for the valuation for funding purposes in Note 7a.

The Basic Account is the account from which the defined basic benefits of the plan are paid and from which any indexing that has been granted to retired members, is also paid. Future indexing benefits are not guaranteed within the plan provisions and are granted to retired members only to the extent that sufficient money is available from the Inflation Adjustment Account to fund those benefits. As indexing is granted, the Basic Account receives from the Inflation Adjustment Account the necessary net present value funding for the granted indexing. Therefore accrued basic pension benefits, for valuation purposes, include the liability for all indexing granted to the date of the valuation, but not, as yet unknown, future indexing.

The latest valuation was made as at December 31, 2000, by Eckler Partners Ltd. Net actuarial assets in the Basic Account as at that date were $11,185 million ($11.2 billion) and liabilities for accrued basic pension benefits were $10,337 million ($10.4 billion). As a result, on an accrued benefit basis, there was a Basic Account surplus of $847 million. At the prior valuation, as at December 31, 1997, actuarial assets were $7,823 million ($7.8 billion); liabilities were $8,120 million ($8.1 billion) and there was an unfunded liability of $297 million.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

8. OBLIGATIONS FOR PENSION BENEFITS FOR ACCOUNTING PURPOSES (CONTINUED)

The present value of liabilities for pension benefits accrued to the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes, it is required that extrapolations between valuations be calculated and one has been done to December 31, 2001, using the long-term actuarial assumptions. Actuarial liabilities and net assets reflect the following long-term actuarial assumptions:

- annual investment return 7.25%
- annual salary escalation rate 4.75%

On that basis, the extrapolated surplus on an accrued benefit basis to December 31, 2001 is $887 million.

However, extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the Inflation Adjustment Account, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. RELATED PARTY TRANSACTIONS

a) Benefit Administration Costs

Administration costs include general benefit administration costs incurred by the Pension Corporation, actuarial fees and board expenses. General administration costs incurred by the Pension Corporation are prorated and charged to each pension plan under its administration based primarily on the relative numbers of members in each plan. Included in benefit administration costs is $14.2 million of Pension Corporation benefit administration costs and in the accounts payable balance is $1.7 million due to the Pension Corporation for those costs.

b) Investment Management Costs

The bcIMC manages investments on behalf of the board and uses internal and external investment managers for this purpose. Total investment management fees for 2001 were $19.8 million (2000 - $18.5 million).

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

10. SUPPLEMENTAL BENEFITS

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act (Canada)* limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through the account. The availability type and level of this retiree group benefit coverage is contingent upon the availability of funds within the Supplemental Benefits Account to fund such benefits.

To the extent dental and extended health benefits are funded through the Supplemental Benefits Account, they are funded from employer inflation contributions. To the extent medical service plan benefits are funded through the Supplemental Benefits Account, they are funded 50% from employer basic contributions and 50% from employer inflation contributions.

11. COMMITMENTS

The plan participates in the Private Placements Pools managed by bcIMC. These pools consist primarily of investments in limited partnerships.

As at December 31, 2001 the Municipal Pension Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $872 million.